



Highlights

Why OCA Did This Study

In accordance with the City Auditor's FY 2015 Work Plan, we conducted a performance audit of the City's overhead rate calculation process. This is a process performed yearly for departments throughout the City, though we focused our audit with particular respect to the Public Utilities Department (PUD).

Our audit objectives were to:

- Assess the standard cost and non-discretionary allocation methodologies to determine if the overhead rates assigned to PUD are reasonable, equitable, and justifiable
- Determine if the process used by PUD to develop and review its overhead rates is reasonable, equitable, and justifiable

What OCA Recommends

- The Comptroller's Office can improve its capabilities through enhanced documentation of its decisions and expanded training for City staff.
- Financial Management should require provider department Directors to formally sign-off on submitted documentation, and increasing communication with provider departments as allocations are adjusted.
- PUD should formalize the cost classification review process by providing staff guidance and housing cost classification review documentation in a central repository.
- It should also work with the Comptroller's Office to document the impact to overhead rates as a result of Department restructuring.

Management agreed to implement all recommendations.

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Overhead Rate Calculation Process

Improved Documentation and Enhanced Training Will Help Ensure Future Overhead Rates Continue to be Reasonable, Equitable, and Justifiable

What OCA Found

We reviewed the overhead rates assigned to the Public Utilities Department (PUD) by examining the cost allocation methodologies used to develop Citywide overhead rates.

Although the [Office of the City Comptroller](#)'s staff has accomplished the work needed to produce reasonable and equitable yearly cost allocation plans, more formal documentation of the cost allocation process and additional guidance to City Departments is needed to ensure rates are always fully justifiable. Specifically, a more formalized structure is needed for documenting internal processes, maintaining supporting documentation for cost allocation decisions, and periodically training staff to consistently categorize costs to reduce the risk of unjustifiable overhead rates.

The [Financial Management Department](#) (FM) has developed a system that provides proper guidance to provider departments responsible for developing non-discretionary budgets. The system requires that provider departments identify and assign non-discretionary costs on a reasonable and consistent basis. However, FM needs to develop a more formalized structure for maintaining supporting documentation for non-discretionary budget allocations. FM should also strengthen its review of non-discretionary budgets, as well as require provider departments to certify review of their allocations prior to submittal to FM.

As part of the standard cost methodology, the City Comptroller requires City departments to review their own accounting and ensure that expenditures are correctly identified as direct or indirect costs. We found that [PUD](#) should formalize its cost allocation review process and strengthen its guidance provided to internal staff. Currently, the process relies on institutional knowledge and is not equipped to maintain continuity of operations should key staff turnover occur. Additionally, PUD should properly document its review of the accompanying reassignment of costs resulting from a series of restructures over the last several years.



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